

## Message Text

PAGE 01 STATE 147189  
ORIGIN EB-08

INFO OCT-01 EA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03  
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15  
STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01  
DOE-15 JUSE-00 /124 R

DRAFTED BY EB/OT/STA:TFO'HERRON:PND  
APPROVED BY STR:RRIVERS  
EB/OT/STA:JSSPIRO  
EB/OT/TA:JCUNNINGHAM  
EA/J:CMCDONALD  
COMMERCE:JBYRON  
COMMERCE:JDAVIS  
STR:SCOFFIELD

-----017466 101236Z /14

R 092036Z JUN 78  
FM SECSTATE WASHDC  
TO AMEMBASSY TOKYO  
INFO USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ETRD, JA

SUBJECT: U.S.-JAPANESE CONSULTATIONS ON LEATHER

REF: TOKYO 9597

1. SUMMARY. CONSULTATIONS ON JAPANESE LEATHER IMPORT  
RESTRICTIONS MAY 30-31 CONFIRMED EMBASSY'S PREDICTION  
THAT JAPANESE SIDE HAD LITTLE OF INTEREST TO OFFER U.S.  
REGARDING INCREASED ACCESS TO JAPANESE MARKET FOR U.S.  
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PAGE 02 STATE 147189

LEATHER. JAPANESE OFFERED TRIVIAL IMPROVEMENTS WITHIN  
PRESENT SYSTEM, CLARIFIED CERTAIN ADMINISTRATIVE PROCEDURES,  
AND INSISTED THAT NEED TO MAINTAIN BURAKUMEN EMPLOYMENT  
RULED OUT INCREASED U.S. SALES IN JAPANESE MARKET IN  
SHORT RUN. U.S. SIDE STATED JAPANESE "OFFER" WAS UNACCEP-  
TABLE, AND URGED GOJ TO UNDERTAKE RAPID REVIEW OF POSSIBIL-  
ITY FOR SIGNIFICANT ACCESS AND TO LET US KNOW THE  
PROSPECTS WITHIN TWO WEEKS. U.S. SIDE SUGGESTED ONLY  
RAPID DECISION BY GOJ TO TAKE STEPS WHICH WOULD GIVE  
U.S. LEATHER PRODUCERS OPPORTUNITY FOR SIGNIFICANT ACCESS

COULD HEAD OFF GATT COMPLAINT. JAPANESE AGREED TO REPORT U.S. POSITION AND PROVIDE EARLY REPLY. END SUMMARY.

2. U.S. INTERAGENCY TEAM AND THREE JAPANESE OFFICIALS MET MAY 30 AND 31 TO DISCUSS JAPAN'S IMPORT RESTRICTIONS ON LEATHER. JAPANESE SIDE WAS LED BY R. HAYASHI OF MITI, AND INCLUDED J. FUJIWARA OF MITI AND H. MASAGO, MINISTER FOR COMMERCIAL AFFAIRS OF JAPANESE EMBASSY. U.S. SIDE WAS LED BY W. BARREDA AND S. COFFIELD OF STR, SUPPORTED BY F. GEERKEN, S. HALE AND A. DEATHERAGE OF USDA; J. DAVIS, D. BUSSINGER, AND J. BYRON OF COMMERCE; J. HESTER OF LABOR; D. COOK OF TREASURY; AND T. O'HERRON (EB/OT/STA), J. CUNNINGHAM (EB/OT/TA), AND C. MCDONALD (EA/J) OF STATE. (NOT ALL THOSE MENTIONED WERE PRESENT FOR ENTIRE CONSULTATION.)

3. AS ANTICIPATED, JAPANESE SIDE SOUGHT TO TILT THE TALKS TOWARD EXCHANGE OF INFORMATION SO AS TO INCREASE MUTUAL UNDERSTANDING OF PROBLEMS IN LEATHER SECTOR, WHILE U.S. SIDE SOUGHT TO FOCUS ON NEED FOR ACTION BY GOJ. IN U.S. OPENING STATEMENT, COFFIELD POINTED TO DECLINE IN U.S. TANNING INDUSTRY; EXCELLENT RECEPTION ACCORDED U.S. PRODUCT IN ALL OVERSEAS MARKETS EXCEPT LIMITED OFFICIAL USE  
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PAGE 03 STATE 147189

JAPAN; FACT OF CONCENTRATIONS OF LEATHER FIRMS IN HIGH-UNEMPLOYMENT URBAN AREAS, AND HIGH PERCENTAGE OF MINORITY WORKERS IN THE LEATHER INDUSTRY; AND DESIRE OF USG FOR PHASE-OUT OF JAPANESE RESTRICTIONS. COFFIELD NOTED THAT U.S. PREFERS BILATERAL APPROACH TO SETTLEMENT OF CASES BROUGHT UNDER SECTION 301 OF TRADE ACT OF 1974, BUT STATED THAT U.S. WILL HAVE LITTLE CHOICE BUT TO TAKE RETALIATORY ACTION IF GOJ CANNOT SHOW "POSITIVE PROGRESS" AND GIVE US A "COMMITMENT THAT, OVER TIME, THE RESTRICTIONS CAN BE PHASED OUT."

4. HAYASHI RESPONDED BY DESCRIBING IN DETAIL SITUATION OF BURAKUMEN; STRESSED GOJ'S LEGAL OBLIGATION TO PROMOTE INDUSTRY AND STABILIZE EMPLOYMENT IN DOWA DISTRICT; AND NOTED COMMITMENT OF JAPANESE LEADERS TO "CORRECT THE WRONGS OF OUR ANCESTORS." HE DESCRIBED JAPANESE TANNING INDUSTRY AS CONSISTING LARGELY OF VERY SMALL FIRMS WITH LOW PRODUCTIVITY, LOW TECHNOLOGY, AND HIGH PRICE OF FINAL PRODUCT; HE STATED THAT INDUSTRY WAS ALREADY BEING SQUEEZED BY IMPORTS OF LEATHER GOODS. HAYASHI RECOUNTED MEASURES ALREADY TAKEN BY GOJ TO IMPROVE STATUS OF BURAKUMEN, BUT HELD FAST TO NOTION THAT LEATHER INDUSTRY HAD TO BE PROTECTED TO GUARANTEE EMPLOYMENT TO THIS MINORITY. (UNDER QUESTIONING FROM U.S. SIDE, HAYASHI ACKNOWLEDGED THAT ONLY ABOUT 12,000 BURAKUMEN, OR SOME THREE PERCENT OF BURAKUMEN WHO WORK,

ARE IN LEATHER INDUSTRY.) FOLLOWING HAYASHI'S PRESENTATION, HESTER DESCRIBED JOB PICTURE IN U.S. TANNING INDUSTRY, NOTING OVERALL DECLINE IN PAST DECADE, AND POINTING TO EXTENT OF MINORITY EMPLOYMENT.

5. IN QUESTION-AND-ANSWER SESSION, HAYASHI CLARIFIED SOME POINTS REGARDING JAPANESE IMPORT SYSTEM, SOMETIMES WITH INFORMATION WHICH WAS AT VARIANCE WITH PREVIOUS U.S. UNDERSTANDING. HE STATED THAT LEVELS FOR GLOBAL QUOTA AND SPECIAL U.S. QUOTA WERE SET ANNUALLY ON BASIS OF GOJ ESTIMATES OF DOMESTIC LEATHER PRODUCTION AND LIMITED OFFICIAL USE  
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PAGE 04 STATE 147189

DEMAND; THAT AMOUNTS OF QUOTAS COULD NOT BE PUBLICIZED; THAT NAMES OF THOSE PERSONS ISSUED LICENSES TO IMPORT UNDER QUOTA, ALTHOUGH NOT PUBLISHED, WERE KNOWN TO ALL INTERESTED PARTIES IN THE LEATHER TRADE IN JAPAN; THAT LICENSES WERE NOT TRANSFERABLE; THAT IMPORTS COULD BE MADE ONLY BY ORIGINAL LICENSEES (ALTHOUGH LEATHER, ONCE IMPORTED, COULD BE SOLD TO A NON-LICENSEE); AND THAT AMOUNT OF LEATHER EACH LICENSEE IS AUTHORIZED TO IMPORT DEPENDS IN LARGE PART ON AMOUNT IMPORTED IN PREVIOUS YEAR.

6. HAYASHI ALSO STATED THAT AN IMPORTER MAY BUY FROM U.S. SOURCES UNDER THE SPECIAL U.S. QUOTA OR UNDER THE GLOBAL QUOTA. IN RECENT YEARS, THE GLOBAL QUOTA HAS BEEN FILLED, BUT THE U.S. QUOTA HAS NOT BEEN. WHEN ASKED HIS VIEW OF THE REASON FOR THIS, HAYASHI SUGGESTED THAT IMPORTERS MIGHT NOT CARE FOR QUALITY OF U.S. PRODUCT; U.S. SIDE DISAGREED WITH THIS VIEW. HAYASHI REFUSED TO REVEAL AMOUNTS OF QUOTAS, DESPITE REPEATED REQUESTS TO DO SO. HE DID STATE THAT QUOTAS WERE SET IN TERMS OF VALUE, NOT QUANTITY. (FYI--WE ESTIMATE IMPORTS UNDER GLOBAL QUOTA FOR 1977 AT AROUND \$9.4 MILLION--QUOTA MUST THEREFORE HAVE BEEN ABOUT THAT. U.S. SHIPPED ABOUT \$1.5 MILLION OF LEATHER TO JAPAN IN 1977, BUT WE HAVE NO IDEA WHETHER IMPORTERS WERE USING GLOBAL OR U.S. QUOTAS FOR THESE PURCHASES. END FYI) HAYASHI EMPHASIZED THAT LEATHER IMPORTS HAD TO BE HANDLED WITH NO PUBLICITY, SO AS TO AVOID PROBLEMS WITH BURAKUMEN (INCLUDING RISK OF VIOLENCE TO THOSE INVOLVED.)

7. HAYASHI ARGUED THAT NEITHER A RELATIVELY HIGH TARIFF NOR A "RESIDUAL QUANTITATIVE RESTRICTION" WAS AN "UNJUSTIFIABLE OR UNREASONABLE" TRADE BARRIER WITHIN THE MEANING OF SECTION 301 OF THE TRADE ACT OF 1974; U.S.  
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PAGE 05 STATE 147189

SIDE STATED THAT THE COMBINATION, AS WELL AS ADMINISTRA-

TIVE COMPLEXITY OF JAPANESE SYSTEM, BROUGHT THE CASE WELL WITHIN 301. HAYASHI DOUBTED WE WOULD HAVE A STRONG GATT CASE; WE EXPRESSED CONFIDENCE THAT WE WOULD.

8. ALTHOUGH HAYASHI STATED THAT IT WAS "ALMOST IMPOSSIBLE" FOR THE GOJ TO CONSIDER CHANGING ITS SYSTEM OR INCREASING ITS QUOTAS, HE INSISTED THAT JAPAN WAS COMMITTED TO GRADUAL INCREASES IN QUOTAS AND TO LIBERALIZATION OF IMPORTS. COFFIELD NOTED THAT U.S. INDUSTRY HAD BEEN VERY

REASONABLE IN ITS REQUESTS; IT MERELY SEEKS REASONABLE ACCESS IN THE SHORT TERM, AND A COMMITMENT TO PHASE-OUT THE QUOTAS OVER A PERIOD OF YEARS. THE TARIFF ISSUE WAS FOR THE MTN, WE HAVE ASKED FOR A FORMULA CUT.

9. HAYASHI STATED GOJ COULD NOT DO MUCH YET, BUT HAD DECIDED TO TAKE SEVERAL STEPS WHICH COULD PROVIDE GOJ FLEXIBILITY IN THE FUTURE. THE FIRST STEP IS THE FORMATION, BY MARCH 31, 1979, OF A NATIONAL ASSOCIATION OF TANNERS, TO REPLACE THE EXISTING REGIONAL ONES AND PROVIDE THE GOJ WITH A SINGLE, REPRESENTATIVE INTERLOCUTOR. JAPANESE PLAN TO WORK WITH THIS GROUP TO MODERNIZE THE INDUSTRY, RATIONALIZE PRODUCTION AND THEREBY ENABLE JAPANESE TANNERS TO BE COMPETITIVE WITH IMPORTS. IN ADDITION, GOJ WOULD BE HAPPY TO HELP U.S. FIND WAYS TO FILL U.S. QUOTA AND OBTAIN LARGER SHARE OF GLOBAL QUOTA. (HOWEVER, THIS ASSISTANCE WOULD APPARENTLY NOT INCLUDE TELLING US WHAT THE QUOTAS ARE.) THIS WAS THE TOTALITY OF HAYASHI'S OFFER.

10. ON SPECIFIC REQUESTS FROM U.S. INDUSTRY REGARDING LEATHERS WHICH OUR EXPORTERS ALLEGE COULD ENTER WITH LITTLE OR NO EFFECT ON JAPANESE MARKET, HAYASHI'S RESPONSES WERE AS FOLLOWS:

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PAGE 06 STATE 147189

- A) SHEEP AND LAMB LEATHER: SHIP WITHIN YOUR QUOTA.
- B) CATTLEHIDE BLUE STOCK: NO CHANGE POSSIBLE.
- C) CATTLEHIDE SIDE UPPERS: NO CHANGE POSSIBLE.
- D) CATTLE HIDE UPHOLSTERY LEATHER: NO CHANGE POSSIBLE.
- E) VEGETABLE TANNED LEATHERS: NO CHANGE POSSIBLE. U.S. PRODUCT IS INFERIOR TO ITALIAN PRODUCT IN ANY CASE.
- F) CATTLEHIDE SPLITS: SUGGEST YOU SHIP SIDE-SPLITS INSTEAD OF BEND-SPLITS.
- G) CATTLEHIDE GARMENT SIDES: NO CHANGE POSSIBLE. JAPAN IS ALREADY UNDER PRESSURE FROM IMPORTS FROM KOREA.
- H) MISCELLANEOUS CATTLE LEATHERS: NO CHANGE POSSIBLE.

11. U.S. SIDE EXPRESSED APPRECIATION FOR LIST OF JAPAN'S QUOTA LICENSE HOLDERS, WHICH HAS BEEN GIVEN TO U.S.

TANNERS' COUNCIL, BUT NOTED THAT SOME OF THE PERSONS ON THE LIST CLAIM THEY ARE NOT LICENSEES. HAYASHI SUGGESTED THEY WERE LYING; IT IS EASIER FOR A JAPANESE BUSINESS-MAN TO SAY "I HAVE NO LICENSE," THAN TO SAY "I DON'T WANT YOUR PRODUCT."

12. AFTER INTERAGENCY CONSULTATION, BARREDA TOLD JAPANESE THAT THEIR "OFFER" WAS COMPLETELY INADEQUATE AND UNACCEPTABLE. HE REMINDED JAPANESE THAT STRAUSS HAD TOLD USHIBA WE WOULD GO TO THE GATT IF WE DIDN'T GET SUBSTANTIAL ACCESS, AND URGED JAPANESE TO TAKE ANOTHER LOOK AT THE PROBLEM AND TO LET US KNOW, BEFORE NEXT STRAUSS-USHIBA MEETING (JUNE 12), IF THEY WILL BE ABLE TO MAKE AN OFFER OF SUCH ACCESS. JAPANESE AGREED TO REPORT U.S. POSITION AND GET IN TOUCH WITH US QUICKLY. VANCE

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## Message Attributes

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**Capture Date:** 26 sep 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LEATHER, NEGOTIATIONS, TRADE AGREEMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 09 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978STATE147189  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** EB/OT/STA:TFO\HERRON:PND  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** n/a  
**Expiration:**  
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**Office:** ORIGIN EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** TOKYO 9597  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 04 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** U.S.-JAPANESE CONSULTATIONS ON LEATHER  
**TAGS:** ETRD, JA, US  
**To:** TOKYO INFO GENEVA  
**Type:** TE  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014